Nonbank Financial Company Designations
Final Rule and Interpretive Guidance
Fact Sheet

In the 2007-2008 financial crisis, financial distress at certain nonbank financial companies contributed to a broad seizing up of financial markets. These nonbank financial companies were not subject to the type of regulation and consolidated supervision applied to bank holding companies, nor were there effective mechanisms in place to resolve the largest and most interconnected of these nonbank financial companies without causing further instability.

To address any potential risks posed to U.S. financial stability by these companies, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") authorizes the Financial Stability Oversight Council (the "Council") to determine that certain nonbank financial companies will be subject to supervision by the Board of Governors of the Federal Reserve System (the "Board of Governors") and to enhanced prudential standards. The authority of the Council to subject a nonbank financial company to supervision by the Board of Governors and to enhanced prudential standards is only one of the Council's numerous authorities and tools to carry out its statutory duty to monitor and mitigate any potential threats to U.S. financial stability.

The Council has approved a final rule and interpretive guidance that details the process and analytical framework that the Council intends to use when determining whether a nonbank financial company should be subject to supervision by the Board of Governors and to regulations such as enhanced prudential standards and the requirement to prepare resolution plans. The rule and guidance will be published in the Federal Register, and the Council will immediately initiate the process of evaluating nonbank financial companies.

The Council has developed a robust process for evaluating whether a nonbank financial company should be subject to Board of Governors supervision and to enhanced prudential standards.

- The Council will approach each determination on a company-specific basis, considering the unique risks to U.S. financial stability that each nonbank financial company may pose. The Council's evaluation of each firm will involve both quantitative analysis and the Council's qualitative judgment.

- The Dodd-Frank Act requires the Council to assess 10 considerations when evaluating nonbank financial companies. The Council has grouped these statutory considerations into a six-category framework.

    - The Council will seek to assess the potential impact of a company's financial distress on the broader economy based on its size, substitutability, and interconnectedness.

    - The Council will seek to assess the vulnerability of a company to financial distress based on its leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny.

- Nonbank financial companies will generally be assessed in a three-stage process in non-emergency situations:

    Stage 1: First, the Council will apply uniform quantitative thresholds, outlined below, to identify those nonbank financial companies that will be subject to further evaluation.

    Stage 2: The Council will analyze the nonbank financial companies identified in Stage 1 using a broad range of information available to the Council primarily through existing public and regulatory sources.

    Stage 3: The Council will contact each nonbank financial company that the Council believes merits further review to collect information directly from the company that was not available in the prior stages. Each nonbank financial company that is reviewed in Stage 3 will be notified that it is under consideration and be provided an opportunity to submit written materials related to the Council's consideration of the company for a proposed determination.

- At the end of Stage 3, based on the results of the analyses conducted during each stage of review, the Council may, by a vote of at least two-thirds of the Council's voting members then serving, including an affirmative vote by the

Chairperson of the Council, make a proposed determination regarding the company. If a proposed determination is made, the Council will provide the nonbank financial company with a written explanation of the basis of the proposed determination. The company may request a hearing to contest the proposed determination. In order to make a final determination, the Council must again vote by a two-thirds majority, including an affirmative vote by the Chairperson.

The Council intends to apply the following uniform quantitative thresholds to a broad group of nonbank financial companies in Stage 1 to help identify companies for further evaluation.

- A nonbank financial company will be subject to further evaluation if it has at least $50 billion of total consolidated assets and meets or exceeds any one of the following thresholds:
  - $30 billion in gross notional credit default swaps outstanding for which the nonbank financial company is the reference entity;
  - $3.5 billion in derivative liabilities;
  - $20 billion of total debt outstanding;
  - 15 to 1 leverage ratio, as measured by total consolidated assets (excluding separate accounts) to total equity; or
  - 10 percent ratio of short-term debt (having a remaining maturity of less than 12 months) to total consolidated assets.
- In addition, the Council may consider any nonbank financial company for a determination if the Council believes the company could pose a threat to U.S. financial stability.
- For foreign nonbank financial companies, the Council intends to calculate the Stage 1 thresholds based solely on the U.S. assets, liabilities, and operations of the foreign nonbank financial company and its subsidiaries.
- Further evaluation by the Council of a nonbank financial company identified in Stage 1 does not mean that the company will be subject to a final determination by the Council.
- These thresholds add significant transparency to the designation process, beyond the statutory requirements, by helping nonbank financial companies assess whether they will likely be subject to additional review by the Council.
- The Council will continue to evaluate and adjust this framework and the thresholds, as appropriate, as more data about firms and industries, such as asset managers, hedge funds, private equity firms, and swaps entities, become available.

The Council has provided important clarifications in the final rule and interpretive guidance in response to public comments it received on the proposed rule and guidance.

- The final rule clarifies the applicability of the confidentiality provisions to information collected by the Council as part of the determination process.
- Additional information on both the method and the frequency of calculating Stage 1 thresholds has been provided to allow for a better understanding of the Council's analysis.
- In connection with the Council's annual reevaluations of nonbank financial companies subject to previous Council determinations, companies will receive written notice and an opportunity to submit materials to contest the continuation of the determination.